



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** November 20, 2007

**TO:** Mayor and Councilmembers

**FROM:** Accounting Division, Finance Department

**SUBJECT:** Comprehensive Annual Financial Report (CAFR) For The Fiscal Year Ended June 30, 2007

**RECOMMENDATION:** That Council:

- A. Receive a report from staff on the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2007; and
- B. Accept the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2007.

### DISCUSSION:

Pursuant to City Charter, Finance Department staff has prepared the City's annual financial statements for the fiscal year ended June 30, 2007. The basic financial statements have been expanded, as they are each year, to include other required information and elements needed to be considered for the prestigious award for excellence in financial reporting from the Government Finance Officer's Association (GFOA). As such, the statements are referred to collectively as a "Comprehensive Annual Financial Report" (CAFR).

The financial statements were audited by the independent public accounting firm of Caporicci & Larson, Certified Public Accountants, whose unqualified opinion is included within the financial section of the report. An unqualified opinion indicates that the financial statements present fairly the financial position of the City of Santa Barbara as of June 30, 2007, and the results of operations in accordance with generally accepted accounting principles. As part of the audit, the audit firm also reviewed and performed tests of the City's internal accounting control procedures to determine if there are any material weaknesses or instances of non-compliance. Based on the audit, no instances of non-compliance or material weaknesses were noted.

The CAFR is divided into three (3) major sections: the introductory section, the financial section, and the statistical section. The introductory section includes the letter of transmittal, a directory of City officials, and an organization chart. The financial section

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REVIEWED BY: \_\_\_\_\_ Finance \_\_\_\_\_ Attorney

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includes the independent auditors' report (as noted above), management's discussion and analysis (MD&A), and the financial statements, including notes. The statistical section includes financial trend information as well as demographic information about the City.

With the adoption of Governmental Accounting Standards Board Statement No. 34 (GASB 34) in fiscal year 2002, the City's financial reporting was changed significantly. The intent of GASB, with the adoption of Statement No. 34, was to move governmental accounting and reporting closer to that of the private sector so that readers could assess the financial health of the City at the end of the year, and determine whether the City's financial condition is improving or deteriorating over time. GASB 34 imposed three major changes to the annual financial statements: (1) an MD&A section; (2) the addition of government-wide financial statements; and (3) reporting of infrastructure assets and related depreciation expense in the governmental funds. Each of these requirements is discussed below.

The MD&A contains detailed discussion and analysis of the financial information contained in the report, at both the city-wide level and fund level. It includes explanations of revenues, expenses and year-end balances of assets and liabilities. It also provides a comparative analysis to prior year results. The purpose of the MD&A is to assist readers of the financial statements with their understanding and assessment of the financial condition of the City as a whole.

The Government-wide financial statements, which are a higher level of reporting that consolidates all funds of the City into one of two categories: Business-Type Activities or Government-Type Activities. In addition, the government-wide statements present all activities on an accrual basis of accounting, similar to what is used in the private sector. The purpose of the statements, and use of accrual accounting, is to allow readers to assess the financial condition of the City as a whole in the same manner as they would be able to assess financial statements of private sector entities. The government-wide statements include a Statement of Net Assets, which reports all assets and liabilities of the City, with the difference being net assets, and a Statement of Activities that presents revenues and expenses and the net change in net assets during the year.

Lastly, the financial statements include all infrastructure assets, (including roads, sidewalks, curbs & gutters, storm drains, street lights, bridges, traffic signals, water pipes, sewer pipes, and other similar assets), and include the deterioration of these assets (represented by annual depreciation expense). Prior to implementation of GASB 34, governmental funds (such as the General Fund) were not required to track or report infrastructure assets because the focus of governmental fund reporting has been (and still is) on "spendable" financial resources for funding ongoing programs and activities. Although an integral part of a government's operations, infrastructure assets are not "spendable" or otherwise available for appropriation and thus were not previously required to be reported. However, for purposes of the government-wide statements only, the Governmental Accounting Standards Board (GASB) believes that the inclusion of

infrastructure assets and related depreciation expense allows a reader to more accurately assess a government's financial condition, and whether it is generating sufficient revenues to cover all costs (including depreciation expense).

Staff will present the CAFR to the Finance Committee just prior to the Council's afternoon session. A representative from the auditing firm will be present to provide the Finance Committee and Council with a summary of the audit and the results thereof.

**Note:** The Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2007 can be referenced in a reading file at the City Clerk's Office, the City Administrator's Office, or at the Central Library. A copy will also be available on the internet at <http://www.santabarbaraca.gov/Government/Finance/>.

**PREPARED BY:** Rudolf J. Livingston, Accounting Manager

**SUBMITTED BY:** Robert D. Peirson, Finance Director

**APPROVED BY:** City Administrator's Office